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The Aftermath of *Stanford v. Roche*: Which Law of Assignments Governs?

Sean M. O'Connor, J.D., M.A.*

The discovery and commercialization of biotechnology innovations often rely on collaborations between universities and for-profit firms. In the United States, the federal government funds much of university life sciences research and, under the *Bayh-Dole Act*,¹ has some rights to research arising from that funding. Two important strands of invention ownership issues in this web of collaboration arose under litigation that culminated in the recent United States Supreme Court decision *Board of Trustees of Leland Stanford Junior University v. Roche Molecular Systems, Inc.* (“*Stanford v. Roche*” or “*Stanford*”).² The first is the question of whether Bayh-Dole trumps any other invention assignment agreements when federal funding was used in any part for the invention. The second is whether a 1991 development in the case law of the United States Court of Appeals for the Federal Circuit (the “Federal Circuit”) regarding invention assignments is binding federal common law. While the Supreme Court limited itself to the first question — because the petition for certiorari was so limited — some of the justices addressed the second in a concurrence and a dissent. This article discusses both strands, while paying particular attention to the emerging battle over the Federal Circuit’s “federal common law” of assignments. Part I reviews the facts of the case. Part II delves into the Bayh-Dole issues. Part III concludes the article by analyzing the Federal Circuit’s federal common law of assignments and addressing the open issues which may result in a Supreme Court challenge next year.

1. BACKGROUND FACTS OF *STANFORD V. ROCHE*

The salient facts of *Stanford v. Roche* are as follows. Dr. Mark Holodniy became a research fellow at Stanford University in 1988.³ He executed Stanford’s then standard Copyright and Patent Agreement (“CPA”) which provided that he “‘agree[d] to assign’ to Stanford his ‘right, title, and interest in’ inventions resulting from his employment” at Stanford.⁴ His work required him to learn and use the polymerase chain reaction technique (“PCR”) that Cetus Corporation had pioneered. Cetus was already collaborating with Stanford on research in this area, and Holodniy’s supervisor arranged for him to learn PCR at Cetus and pursue a sub-

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¹ P.L. 96-517 §6 (Dec. 12, 1980).

² 131 S. Ct. 2188 (2011).

³ *Id.* at 2192; *Trustees of Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, 583 F.3d 832, 837 (Fed. Cir. 2009).

⁴ 131 S. Ct. at 2192.

stantial part of his research there with Cetus employees. Upon arriving at Cetus, Holodniy executed Cetus' Visitor's Confidentiality Agreement ("VCA"), which provided that he "will assign and do[es] hereby assign' to Cetus his 'right, title and interest in each of the ideas, inventions and improvements' made 'as a consequence of [his] access' to Cetus."⁵ After nine months, during which the invention at the heart of this case was conceived, Holodniy returned to Stanford to test and refine the invention. He worked with colleagues there, allegedly under federal funding.⁶ In 1991, Roche Molecular Systems, Inc. (Roche), purchased all of Cetus' PCR-related assets. Over the next few years it conducted clinical trials on the PCR HIV technique as it had been developed while Holodniy was still at Cetus, and then developed and distributed commercial kits worldwide.⁷ In 1992, Holodniy and his Stanford colleagues finished testing and refining the invention. Stanford then obtained invention assignments from them all and filed patent applications on the technique.⁸ Three patents ultimately issued, in 1999, 2003, and 2006.⁹ In 2000, Stanford approached Roche about taking a license to the Holodniy patents, but Roche responded that it was a co-owner or licensee of the inventions — under the terms of the VCA, some materials transfer agreements, and under common law shop rights — and declined to take a license.¹⁰ Stanford sued Roche for patent infringement in 2005.¹¹

The district court resolved the case largely in Stanford's favor by adopting a legally recursive timeline of events. First, the court found, there was an agreement to assign inventions that did not yet exist to Stanford under the CPA at some indeterminate time in the future. Second, there was an actual, immediate assignment of inventions (that still did not exist) to Roche (Cetus) under the VCA that, barring the later Bayh-Dole consideration, would have made it impossible for Holodniy to honor his obligation to later assign his inventions to Stanford at their call. Third, the receipt of federal funding by Stanford to actually reduce the now existent invention to practice brought any patents arising from this work under the provisions of Bayh-Dole. And fourth, the filing of patent applications then retroactively stripped Holodniy of any title he had to the invention at any point in time, including when he executed the VCA. Thus, two later in time agreements had the effect of superseding earlier agreements even without any actual modification of the earlier contracts. While the district court did not clearly articulate its views on the interaction of the CPA and VCA, it relied on a view that Bayh-Dole grants the government a right of first refusal to inventions arising under federal funding agreements, and grants the recipient of federal funds, the "contractor" in Bayh-Dole parlance, a "right of second refusal."¹² This would leave the actual inventor — who is gener-

⁵ *Id.*

⁶ 583 F.3d at 838, 131 S. Ct. at 2192. Stanford was never able to produce the government funding agreement.

⁷ 131 S. Ct. at 2192.

⁸ 583 F.3d at 838, 131 S. Ct. at 2192.

⁹ *Ibid.*

¹⁰ 583 F.3d at 838.

¹¹ 131 S. Ct. at 2193.

¹² 487 F.Supp.2d 1099, 1119 (N.D. Cal. 2007).

ally not a party to the funding agreement — with only a residual interest in the inventions conditional on both the government and contractor electing not to exercise their rights.

On appeal, the Federal Circuit reversed the district court’s Bayh-Dole holding and articulated why the VCA trumped the CPA. This left Roche with an ownership interest in the patents and thus deprived Stanford of standing in the case.¹³ The court rejected the district court’s “right of second refusal” construct for contractors.¹⁴ It adopted another district court’s ruling that “the primary purpose of the *Bayh-Dole Act* is to regulate relationships of small business and nonprofit grantees with the Government, not between grantees and the inventors who work for them.”¹⁵ However, the Federal Circuit allowed that if the contractor or its employees have done anything to violate provisions of the *Bayh-Dole Act*, then the government may be able to void these actions and take title for itself.¹⁶ With regard to the CPA and VCA, the Federal Circuit held that the former had only established a promise to do some act in the future at Stanford’s request — essentially a call option — while the latter transferred rights upon its execution. Thus, while Holodniy arguably breached the CPA when he signed the VCA, Stanford had no action against Roche directly and would have to pursue recourse against Holodniy.¹⁷

2. RESOLUTION OF THE BAYH-DOLE ISSUE

Stanford petitioned the Supreme Court for certiorari on the Bayh-Dole issue only. The Supreme Court granted certiorari and affirmed the Federal Circuit. In particular, it reaffirmed its earlier holdings that rights in an invention belong to the inventor, absent some express transfer between the inventor and his employer or another.¹⁸ It then rejected Stanford’s argument that Bayh-Dole is a “vesting statute” similar to the *Atomic Energy Act*, in which title to relevant inventions is vested in designated agencies by act of law.¹⁹ Further, it focused on the definition under Bayh-Dole which requires that a “subject invention” (those inventions subject to the provisions of Bayh-Dole) be an “invention of the contractor.”²⁰ Under the majority’s view, the emphasized portion would be superfluous if *any* invention arising under federal funding were subject to Bayh-Dole. Instead, the court held that a subject invention is one to which the contractor lawfully has rights or title. Most importantly, the title allocation rules under Bayh-Dole, which leave the inventor with

¹³ Stanford continued to have rights to the patents through Holodniy’s Stanford research colleagues, who had not signed away their rights to any other party.

¹⁴ 583 F.3d at 844

¹⁵ *Id.* at 845 (quoting *Fenn v. Yale Univ.*, 393 F.Supp.2d 133, 141-2 (D. Conn. 2004)).

¹⁶ By contrast, the *Stanford* district court had held that such actions were automatically void. 487 F.Supp.2d at 1118-9.

¹⁷ The district court and the Federal Circuit also considered Stanford’s arguments based on the bona fide purchaser provisions of the *Patent Act*, 35 U.S.C. §261, but found them unpersuasive. Discussion of that topic is beyond the scope of this short article.

¹⁸ 131 S. Ct. at 2195.

¹⁹ *Id.* at 2195-6.

²⁰ *Id.* at 2196 (emphasis added).

only a conditioned residual interest where neither the government nor the contractor elect to take title, only apply to subject inventions.

This was the correct ruling, despite opposing briefs filed by the Association for University Technology Managers (“AUTM”), the Association of American Universities (“AAU”), and a number of major research universities. Those associations and universities sought to preserve and protect a practice that many universities had developed which was to rely on Bayh-Dole as a backstop for any defective, incomplete, or simply missing assignments. While convenient for the universities, it was never in compliance with Bayh-Dole and its implementing regulations. Reliance on this misinterpretation of Bayh-Dole also allowed those that so chose to build faculty-friendly assignment policies which left title with faculty unless the invention arose under a specific outside funding agreement that required transfer of rights, such as federal funding agreements and corporate sponsored research agreements. Stanford and a few other schools actively promoted their reputations for being the most faculty friendly in this regard and put in place IP policies that backed this reputation up. Such policies and their promotion paid dividends for these schools in terms of star faculty recruitment and retention.

A brief review of the history of Bayh Dole and federal government patent policy shows why the Supreme Court was correct and why the universities’ practice was ill-founded. Bayh-Dole is sometimes portrayed as an *ex nihilo* event that established university technology transfer when there was none, or at the very least created an entirely new regulatory framework for it. However, it was in fact largely built upon, and unified, existing policies and regulation dating back to the early 1960s.²¹

These policies themselves were built upon the influential *Investigation of Gov’t Patent Practices and Policies: Report and Recommendations of the Attorney General to the President* issued by then Attorney General Francis Biddle in 1947 (the “AG Report”).²² The AG Report summarized United States patent law with regard to inventorship and initial ownership as it existed at that time (and which remains the same today) and made clear that government contractors must have invention title assigned to them:

Under our law, a patentable invention can be made only by an individual or by several individuals working jointly. Since the Government contractor is usually a corporation or an institution, the latter’s agreement to make some or all of the patent rights available to the Government requires a corresponding obligation on the part of the contractors’ employees who engage in performing the research contract. Such an obligation is as a general rule imposed expressly by the employment contract.²³

²¹ Sean O’Connor et al., *Legal Context of University Intellectual Property and Technology Transfer* 7–23 (report prepared for The National Academies, Sep. 20, 2010, available at http://sites.nationalacademies.org/PGA/step/PGA_058712) [hereinafter “O’Connor”].

²² Francis Biddle, Attorney General, *Investigation of Gov’t Patent Practices and Policies: Report and Recommendations of the Attorney General to the President* (1947) [hereinafter “AG Report”]; O’Connor at 7–15.

²³ AG Report, vol. 1 at 78.

The AG Report then referenced extensive research done on the actual practices of both private industry and nonprofit research organizations and universities, and concluded that:

. . . the scientific and technical employees of almost all industrial organizations are under contract to assign their patent rights to the employer, and most academic and other noncommercial institutions likewise require assignment of patent rights by members of their staff who have been detailed to perform research contracts with third parties. Hence the disposition of rights to inventions made under a Government-financed research contract involves the allocation between Government and contractor of the power to exclude others from using the invention, or to permit such use upon payment of a royalty or compliance with some other legal condition.²⁴

This reliance on contractors' existing practice to secure invention assignments from inventors, and the corollary that federal policy need only then concern itself with the allocation of title as between federal agencies and the contractor entity, became a fundamental assumption of government contracting and procurement policy that continues to this day.

This assumption is also consistent with the past and current practice of organization-to-organization contracting in the private sector. Corporations and other non-natural legal persons usually draft their contracts with each other as the sole parties, *i.e.*, without adding each other's employees as parties to the agreement unless there is some supervening reason to do so. At most, the contracts may impose on each party the obligation to enter into appropriate arrangements with employees to protect the other party's rights under the contract.²⁵ This tracking of private sector contracting principles for government policy and contracting purposes paralleled the established law of title allocation for inventions by employed inventors.²⁶

The Kennedy Administration was the first to act on the AG Report with regard to extramural research and development ("R&D").²⁷ Its primary purpose was to establish a uniform government patent title allocation policy for such R&D contracts based upon the recommendations of the AG Report. The Kennedy Memo addressed *only* the allocation as between the government and contractors. Thus, it clearly appeared to rely on the AG Report's assumption that contractors would secure necessary assignments from employees, and therefore policy need only be made for allocation as between the government and its contractors. At the same time, the Kennedy Memo expanded the opportunities for contractors to retain title beyond the recommendations of the AG Report and existing practices of a number of federal agencies. However, it was never implemented in government-wide regu-

²⁴ AG Report, vol. 1 at 88.

²⁵ For example, when confidentiality is a term of the contract, the party owing the duty of confidentiality may be explicitly required to secure an adequate level of confidentiality from the relevant employees. Likewise, where the allocation of intellectual property rights ("IP") is a term of the contract, the relevant parties may be explicitly required to secure the necessary assignments or licenses from employees.

²⁶ AG Report, vol. 1 at 78.

²⁷ Memorandum for the Heads of Executive Departments and Agencies, 28 Fed. Reg. 10,943 (Oct. 12, 1963), 3 C.F.R. §861 (1959–1963) [hereinafter "Kennedy Memo"]; O'Connor at 9-10.

lations, in large part because a number of agency and technology specific patent title allocation statutes had been passed by Congress in the first half of the 20th century.²⁸

The Nixon Administration essentially reissued the Kennedy Memo, with minor modifications primarily intended to increase further the opportunities for contractor retention of title.²⁹ The Nixon Memo thus also addressed only allocation of title as between the government and contractors, continuing the assumption of, and reliance on, contractors securing appropriate title rights from employee-inventors. Despite the continued existence of the *ad hoc* invention title allocation statutes, the Nixon Administration directed the General Services Administration (“GSA”) to promulgate government-wide patent title allocation regulations to implement the Nixon Memo. GSA issued an interim version of the regulations in 1973 and a final version in 1975.³⁰ These regulations were also then built upon the premise of contractor responsibility for securing title rights from employees, and now explicitly required contractors to secure the rights by mandating the inclusion of different versions of a Patent Rights Clause, depending on the exact funding circumstances, in all federal extramural R&D contracts.³¹

Developing alongside these formal policies and regulations was the Institutional Patent Agreement (“IPA”) system used by agencies and departments, including the National Institutes of Health, the then Department of Health, Education, and Welfare, and the National Science Foundation.³² The IPAs were master agreements between research or higher education institutions and federal agencies that set forth the patent allocation terms for all research funded at the institution by the agency. Similar to the GSA regulations, and governed by them after they were promulgated, the IPAs expressly placed the burden of securing patent rights from inventors on the contractors. The IPA concept originated in the 1950s, predating both the Kennedy Memo and the GSA regulations. A publicly available version of a standard form of IPA from 1978 includes a good example of the explicit clause requiring the contractor to secure rights from inventors in conformance with the then

²⁸ O’Connor at 10–13.

²⁹ Memorandum for Heads of Executive Departments and Agencies on Government Patent Policy, 36 Fed. Reg. 16,887 (Aug. 31, 1971) [hereinafter “Nixon Memo”]; O’Connor at 13.

³⁰ O’Connor at 13–14.

³¹ *Federal Procurement Regulations* §§1-9.107, 1-9.107-5(a)–(c) (Patent Rights — Acquisition by the Government, Subsection (e)(3)), 1-9.107-6(a)–(b) (Patent Rights — Acquisition by the Government (Short Form), Subsection (e)(1)) (“The Contractor shall obtain patent agreements to effectuate the provisions of this clause from all persons in his employ who perform any part of the work under this contract except nontechnical personnel, such as clerical employees and manual laborers.”); GSA, *Federal Procurement Regulations*, Part 1–9, Patents, Data and Copyrights: Allocation of Rights in Inventions, 40 Fed. Reg. 19,814 (May 7, 1975).

³² O’Connor at 11–16; John H. Raubitschek and Norman J. Latker, *Reasonable Pricing — A New Twist for March-In Rights Under the Bayh-Dole Act*, 22 Santa Clara Comp. & High tech. L.J. 149, 153 (2005); Gov’t Patent Policies: Institutional Patent Agreements, Hearings before the Senate Subcomm. on Monopoly and Anticompetitive Activities of the Select Comm. on Small Bus. (95th Cong., 2d Sess., May 22, 1978).

governing GSA regulations.³³

By the time the *Bayh-Dole Act* was passed in 1980, the Federal Procurement Regulations system was well established, and the requirements for federal extramural R&D contracts were embedded within and governed by it. However, despite efforts to create uniform government-wide patent policies, there remained *ad hoc* patent allocation statutes across the U.S. Code. The variability that they enabled or mandated for different federal department and agency extramural research policies resulted in a patchwork of different bureaucratic systems and rules for funding agreements. Overall, the tendency was still to require contractors to assign title to the federal funding agency, although this was by no means universal. Bayh-Dole then was intended to establish a truly uniform government-wide statutory default rule of contractor retention of title, albeit limited to nonprofit organization and small business contractors. Crucially, it facilitated this by explicitly superseding the *ad hoc* title allocation statutes by a new statutory provision.³⁴ There is no evidence that this section was intended to change any other legal relationships or the initial vesting of title in natural person inventors. Changing the latter would have entailed a profound revision of established practice and federal and state law, warranting at least some discussion in the legislative history, of which there is none. Instead, §210 was necessary simply to supersede the existing *ad hoc* statutes only to the extent that they would require “a disposition of rights in subject inventions of *small business firms or nonprofit organizations contractors* in a manner that is inconsistent with this chapter . . .”³⁵ The intent was still to allocate title rights only as between the federal agencies and their nonprofit and small business contractors. Accordingly, the quoted language limits itself to inventions of the contractors, *i.e.*, those to which they hold good title.

Thus, the first step in analyzing the effect of §210 on any particular situation is to determine whether the small business firm or nonprofit organization contractor holds title to the invention. This, in turn, relies on determining whether the contractor has secured assignment of the invention from the inventors. If it has, then the allocation of title is, according to Bayh-Dole’s rules, as specified in the funding agreement. If the contractor does not hold title to the invention, then the title allocation will be determined according to the underlying statute, to the extent it is still in effect and applicable. Section 210 is open-ended with regard to which other statutes it supersedes (“including but not necessarily limited to”) only because it anticipated that other statutes might be identified later, and future statutes might be passed, which affect title allocation as between small business firms and/or nonprofit or-

³³ “The Institution shall obtain patent agreements to effectuate the provisions of this Agreement from all persons in its employ who perform any part of the work under any contract except nontechnical personnel, such as clerical and manual laborers.” Institutional Patent Agreement, §V(b), U.S. Senate, Hearings Before the Subcomm. on Monopoly and Anticompetitive Activities of the Select Comm. on Small Business, 95th Cong. (May 22, 23, June 20, 21, and 26, 1978) (Part 2: Appendix: GSA submission for the record: Minutes of meetings of interagency committees on revision of the draft of the Government-wide IPA (notes omitted), pp. 1831–43).

³⁴ 35 U.S.C. §210.

³⁵ 35 U.S.C. §210 (emphasis added).

ganization contractors.³⁶

Nothing in the legislative history of Bayh-Dole indicates that it was intended to change the standard *Federal Procurement Regulations* rules *other than* to institute a default rule of contractor title for small business and nonprofit contractors (as between the contractor and federal funding agency). Similar to the Kennedy Memo and Nixon Memo, Bayh-Dole and its legislative history focus only on the allocation of title as between the contractor and the federal funding agency.³⁷ This is again because both the standard practice of securing assignments from employee-inventors was asserted to be settled and the GSA regulations had established an explicit requirement for such assignments in the patent rights clauses mandated for use in *all* extramural R&D contracts. Thus, for example, even where there is a reference to Bayh-Dole “automatically” granting title to small businesses and nonprofits (subject to agency invocation of the exceptions to the default rule) in the Senate Report that serves as the Bayh-Dole’s primary legislative history,³⁸ this comment was directed to the fact that the Act was intended to change the existing *ex post* determination of title allocation as between contractor and federal agency into an *ex ante* system in which the allocation was predetermined under the funding agreement (and hence was “automatic”).

In sum, Bayh-Dole’s implementing regulations continued the GSA regulations’ explicit requirement for contractors to secure patent rights from employee-inventors. Further, these implementing regulations broadly tracked the earlier GSA regulations, creating a chain of continuity in the basic administration and content of the federal R&D procurement system, even for provisions not expressly required by Bayh-Dole, and including the continuation of mandatory standard patent rights clauses.³⁹

3. UNRESOLVED ISSUES OF THE FEDERAL CIRCUIT’S FEDERAL COMMON LAW OF ASSIGNMENTS

While the court was constrained to the Bayh-Dole issue by Stanford’s petition for certiorari, a concurrence and a dissent expressed concern over the Federal Circuit’s holding on the VCA issue.⁴⁰ Under these views, the majority’s holding on the Bayh-Dole issue, combined with the Federal Circuit case law, provides opportunity and incentive for inventors — and contractors — to circumvent Bayh-Dole’s title allocation system. For these justices, the Federal Circuit’s 1991 ruling in

³⁶ 35 U.S.C. §210 (“The Act creating this chapter shall be construed to take precedence over any future Act unless that Act specifically cites this Act and provides that it shall take precedence over this Act”).

³⁷ With the exception of the mandatory sharing of royalties with inventors in the case of nonprofit contractors, 35 U.S.C. §202(c)(7)(B) (2006), discussed in Part V *infra*, and the process for granting title back to inventors where contractors had originally secured title rights from the inventor, but then chose not to elect rights as against the federal funding agency under the Act, 35 U.S.C. §202(d) (2006).

³⁸ Senate Rep. 96-480 at 36.

³⁹ O’Connor at 15–23.

⁴⁰ *Id.* at 2199–2205 (J. Sotomayor concurring, JJ. Breyer and Ginsburg dissenting).

*FilmTec Corp. v. Allied Signal, Inc.*⁴¹ should be revisited.

In that case, the court asserted that the assignment of rights in an invention that does not yet exist is an assignment of an expectant or future interest and grants at most equitable title until the invention is actually made and a patent application filed.⁴² However, immediately upon the filing of a patent application on the invention, legal title to the invention rights vests in the assignee with no further action required.⁴³ At the same time, actual assignments of expectant interests must be distinguished from mere obligations to assign rights in the future.⁴⁴ The latter are often used when the prospective assignee does not know in advance whether it wants title to the future invention and thus establishes what is essentially a call option. In contrast to the present assignment of future interests, when an obligation to assign is entered into and an invention is later made (and a patent application is filed), no transfer of title occurs until and unless the option is called. In the meantime, the inventor may legally assign any of her rights to third parties. Of course, if and when the holder of the call option calls it in, then the assignor will not be able to honor that option and convey the invention rights (unless she can reacquire them from the current assignee). At this point, she would be in breach of her option agreement. But the counter party to that agreement would only be able to use for contract damages and not for an equitable remedy that would require conveyance of the inventions rights.

The *FilmTec* court did not state whether it was basing its decision on an application of state law — which normally governs contract law interpretation — or establishing a rule of federal common law. This remained murky though later decisions,⁴⁵ until the 2008 decision in *DDB Technologies, L.L.C. v. MLB Advanced Media, L.P.*⁴⁶ In that case, the Federal Circuit squarely held that invention assignment agreements are governed by federal common law because they are integral to the question of standing in federal patent cases.⁴⁷

The concurring and dissenting Supreme Court justices in *Stanford* seemed concerned as to both the rule that federal common law governs invention assignment agreements and that rule's distinction between assignments of future interests and obligations to assign. Their concern appears rooted in how *Stanford* lost control of Holodniy's rights and potentially jeopardized the government's rights in the invention. But, when Holodniy executed the CPA, *FilmTec* had not been decided and some attorneys in California may have believed that state's contract law provided that obligations to assign — under the “agree to assign” language — effected an immediate transfer just as present conveyances of future interests — under the “hereby assign” — did.

At least this seemed to be the guidance that the University of California sys-

⁴¹ 939 F.2d 1568 (Fed. Cir. 1991).

⁴² *Id.* at 1572.

⁴³ *Id.*

⁴⁴ *Id.* at 1573.

⁴⁵ See *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245 (Fed. Cir. 2000); *IpVenture, Inc. v. ProStar Computer, Inc.*, 503 F.3d 1324 (Fed. Cir. 2007).

⁴⁶ 517 F.3d 1284 (Fed. Cir. 2008).

⁴⁷ *Id.*

tem appears to have received. In *Shaw v. The Regents of the University of California*, an associate professor at the University of California, Davis brought a declaratory judgment action against the university to establish his rights to receive 50 per cent of the revenues received by the university on his inventions, per the terms of the patent agreement he signed as a condition of his original employment.⁴⁸ Some years into his employment, the university unilaterally changed its patent policy to reduce the royalty percentages paid to inventors. Shaw argued that the while the university could change its policy generally, such changes would not apply to him until and unless he agreed to modify his written patent agreement. In defending against this action, the university argued *inter alia* that Shaw had effected a “complete transfer of [his] right to the University” when he executed the original patent agreement, based on “agree to assign” language within it.⁴⁹ However, the trial court found this, and the university’s other arguments, unpersuasive and granted Shaw the declaratory relief he sought on summary judgment motion. On appeal, the California Court of Appeals for the Third District affirmed the lower court in all regards. Most relevant for this article, it found that the university’s arguments on the effect of the “agree to assign” language were based on mistaken readings of earlier cases.

In particular, the *Shaw* court cited *Cubic Corporation v. William B. Marty*, in which the patent agreement at issue had a slightly different conveyance of future interests phrase: “Employee assigns and hereby agrees to assign.”⁵⁰ The *Cubic* court still found this phrase to constitute an immediate conveyance of Marty’s future interests in his inventions. This is likely because the phrase still contained the present conveyance phrase “employee assigns.”⁵¹ Further, it was clear in the agreement that Marty was assigning *all* of his future rights. By contrast, the patent agreement Shaw signed only provided that he disclose all future inventions and then “. . . [s]hould the University deem the invention patentable, the signatory promises thereafter ‘to assign to University all rights, title and interest’ in the invention.”⁵² This was more clearly in the nature of an option agreement. How could Shaw have assigned his rights in future inventions at the time of executing the patent agreement if the university would later choose which future inventions disclosed by Shaw would be assigned by Shaw at that later date? To work the way the university alleged, the patent agreement would have to be interpreted to mean that Shaw assigned all of his future interests upon execution of the agreement, and then the university would have the right (obligation?) to assign back any future inventions for which it did not want title. But this is quite a stretch from the contract language.

⁴⁸ 58 Cal.App.4th 44 (Cal. 3d Dist., 1997).

⁴⁹ 58 Cal.App.4th at 53. Presumably, this defense was based on counsel’s interpretation of then current California state law.

⁵⁰ 185 Cal.App.3d 438 (1986).

⁵¹ Further, the longer phrase is similar to other modern present conveyance phrases such as “agrees to assign and hereby does assign.” These variants are not trying to combine present conveyances and call option-type obligations to assign. Rather, they are likely signifying that the assignee has voluntarily agreed to assign the future interests and is also in fact assigning them at that time.

⁵² 58 Cal.App.4th at 48.

Thus, the *Shaw* court properly found that the patent agreement granted the university only a call option-type right for it to demand that Shaw assign future inventions when they arose at the university's election. As such, the *Shaw* court clarified that the "agree to assign" language did not effect a present conveyance of future interests. However, the appellate decision was not handed down until 1997, and *FilmTec* was not decided until 1991. Holodniy had executed the CPA in 1988, so arguably Stanford may have believed that California state law gave the same legal effect to "agree to assign" and "hereby assign" at that time (similar to the University of California's apparent belief about the law). Further, the Federal Circuit was not clear in *FilmTec* that it was creating federal common law. Of course, the case was on appeal from the U.S. District Court for the Southern District of California, and so one should have presumed that whatever state law related issues were decided would be under California law, or binding on California parties going forward.

The bigger question is why some universities — including Stanford — continued using the "agree to assign" language even after *FilmTec* and, for California universities, *Shaw*.⁵³ Holding aside the case where the universities might simply have remained ignorant about the state of the law, there are a few reasons why these universities may have chosen to take the risks of continuing to use the obligation to assign language. One is that the university will not know at the time of a researcher's hire whether all, or even which, of her future inventions should be university property. Second, the university may (incorrectly) believe that it cannot take title to things that do not yet exist.⁵⁴ Third, the university may be confusing the federal tax exempt rules prohibiting the assignment of expectant interests by the entity to others with the permissible assignment of expectant interests from an employee or contractor to the entity.

All three of these are simply misunderstandings of the law. The first potentially remains a problem, but has three straightforward solutions. First, universities can use the "hereby assign" language in assignment agreements and then simply assign back inventions as needed. As an alternative to this, the agreement could have the researcher assign her future inventions to an escrow agent who would operate under the same rules as the university would use in later determining whether to take title to inventions as they arose. Then, as the inventions arose and were disclosed by the inventor to the escrow agent, the latter would apply the rules and assign the invention rights to the university or inventor, as applicable. Second, universities can craft a scope of future interests that have been presently assigned upon execution of the patent agreement. For example, the clause could state "faculty member hereby assigns all rights, title, and interest to future inventions developed in total or in part under federal funding agreements." This could of course contain other factors, such as corporate sponsored research agreements. Third, universities can institute a "supremacy clause," such as that upheld by the

⁵³ Stanford in fact did not change its assignment language until after the Supreme Court's decision in *Stanford v. Roche*.

⁵⁴ Even among some IP professors there is a belief that this is prohibited under the commercial law doctrine on *nemo dat quod non habet*. This is clearly rejected by the Federal Circuit in its decisions beginning at least with *FilmTec*.

Delaware Court of Chancery in *Cephalon, Inc. v. Johns Hopkins University*.⁵⁵ In that case, Johns Hopkins required employees to include a clause in their outside consulting agreements stating that the outside entity agrees that the employee is under an obligation to assign her inventions to the university and that this obligation is senior to any invention assignments the outside entity might impose. In the case at issue, the researcher had done just that and the Court of Chancery upheld the validity and enforceability of this clause as against Cephalon. The challenge with this approach is that it is only as good as the diligence of employees in implementing it. Further, employees may not realize that assignment language may be in other kinds of agreements, such as the VCA in *Stanford*.

4. CONCLUSION

In the end, *Stanford* may be more important for what the Supreme Court did not decide than for what it did. The practice of relying on Bayh-Dole as a backstop to assignment problems should never have developed. Further, universities' failure to adapt their agreements after *FilmTec*, and for California universities, *Shaw*, have left them vulnerable to the kinds of intervening conveyances that occurred in *Stanford*. However, these are entirely preventable provided that universities put in place appropriate assignment terms. Even if the Supreme Court overturns the Federal Circuit's federal common law — as a general principle or specific to the assignment issue — this author is unaware of any state law that holds “agree to assign” language as having the same legal effect as “hereby assign” language. Thus, in the end, the debate over whether there should be federal common law on this point or not will be of no legal moment.

⁵⁵ 2009 WL 4896227 (Del. Ch. 2009).

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